

Memorandum for: Deputy Director for
Intelligence

SUBJECT: DCI/PFIAB-Question Re-Arms
Reductions and Unemployment
in the USSR

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The attached blind memo provides a brief answer to the question raised at PFIAB. We also have included a draft of the text we are working on for inclusion in 11-3/8 this year--in an effort to get economic considerations addressed in discussions of defense program options.



Douglas J. MacEachin

Attachment:
As Stated

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Director,

SOVA
Office of Soviet Analysis

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29 November 1984

MEMORANDUM

Economic Aspects of Reduction-in-Strategic-arms Program

With respect to the question whether an arms control agreement would create a problem by increasing unemployed resources in the Soviet economy, our opinion is that it would not.

The Soviet economy is currently in a position in which competing demands are placing serious strains on available resources. Soviet economic growth has been following a downward trend since the mid-1970s, in large measure because the supply of critical inputs has been increasing at declining rates. Supply has been lagging behind demand, not vice versa. For example, the USSR--as Soviet officials and the Soviet media openly acknowledge--is experiencing a labor shortage, reflecting declining increments to the working age population. Furthermore, production of oil, coal and other important raw materials has been growing slowly or leveling off because of the rising cost of extracting, processing and transporting these materials; readily available supplies of these materials in the European part of the USSR have been depleted, forcing the Soviets to obtain a steadily rising proportion of them in remote and forbidding parts of the country.

It should be noted that there was a moderate upturn in the growth of Soviet gross national product in 1983 and that, in the non-agricultural part of the economy, the 1983 growth rate has apparently been sustained in 1984. We believe, however, that the improvement stemmed from special, "one-shot" factors and that growth will be slower on average in the balance of the 1980s than it was in the last two years.

In view of the squeeze on the Soviet economy, the resources that might be freed by an arms reduction arrangement could be helpful to the USSR, by opening up opportunities for channeling additional resources to the civilian part of the economy. A reduced defense burden could help provide resources to increase consumption, important for social stability and labor productivity, and investment, vital to future economic growth.

As regards unemployment of labor per se, the Soviets claim that there is no unemployment in the USSR and therefore publish no statistics on joblessness. There is inevitably some unemployment in any economy, however--people who are changing jobs or are for some reason "unemployable"--and the

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USSR's is no exception. But the unemployment rate in the USSR is in fact quite low. An arms control agreement would not increase unemployment to a perceptible degree, even in the short run. Workers who were displaced, given the current labor shortage, would find work elsewhere.

A fuller treatment of the themes touched on above is presented in the attachment, a contribution made by the Office of Soviet Analysis to NIE 11-3/8-84, "Soviet Capabilities for Strategic Weapons Conflict."

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